

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name City of Ann Arbor Retiree Health Care Benefits Plan and Trust		County Washtenaw
Audit Date 6/30/05	Opinion Date 10/21/05		Date Accountant Report Submitted to State: 11/23/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

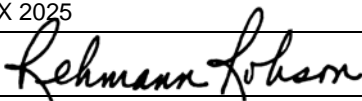
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

**CITY OF ANN ARBOR  
RETIREE HEALTH CARE BENEFITS  
PLAN AND TRUST**

**Financial Statements**

**For The Year Ended  
June 30, 2005**



**REHMANN ROBSON**

*Certified Public Accountants*

**CITY OF ANN ARBOR  
RETIREE HEALTH CARE BENEFITS PLAN AND TRUST**

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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## INDEPENDENT AUDITORS' REPORT

October 21, 2005

To the Board of Trustees of the City of Ann Arbor  
Retiree Health Care Benefits Plan and Trust  
Ann Arbor, Michigan

We have audited the accompanying statement of plan net assets of the ***City of Ann Arbor Retiree Health Care Benefits Plan and Trust Fund*** as of June 30, 2005, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the City of Ann Arbor Retiree Health Care Benefits Plan and Trust Fund of the City of Ann Arbor and do not purport to, and do not present fairly the financial position of City of Ann Arbor, Michigan as of June 30, 2005, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan's net assets of the City of Ann Arbor Retiree Health Care Benefits Plan and Trust Fund as of June 30, 2005, and changes in plan net assets thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

# **FINANCIAL STATEMENTS**

**CITY OF ANN ARBOR**  
**RETIREE HEALTH CARE BENEFITS PLAN AND TRUST**  
**Statement of Plan Net Assets**  
**June 30, 2005**  
**(With Comparative Amounts as of June 30, 2004)**

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Equity in pooled cash and investments	\$ 1,426,088	\$ 1,568,853
Investments, at fair value	43,594,253	36,137,602
Accrued interest receivable	123,794	123,462
Due from other funds of the City of Ann Arbor	<u>13,309</u>	<u>68,116</u>
Total assets	<u>45,157,444</u>	<u>37,898,033</u>
<b>Liabilities</b>		
Accounts payable	194,104	32,998
Due to other funds of the City of Ann Arbor	<u>-</u>	<u>254,446</u>
Total liabilities	<u>194,104</u>	<u>287,444</u>
 <b><u>Net Assets Held in Trust</u></b> <b><u>for Healthcare Benefits</u></b>	 <b><u>\$ 44,963,340</u></b>	 <b><u>\$ 37,610,589</u></b>

The accompanying notes are an integral part of these financial statements.

**CITY OF ANN ARBOR**  
**RETIREE HEALTH CARE BENEFITS PLAN AND TRUST**  
**Statement of Changes in Plan Net Assets**  
**For the Year Ended June 30, 2005**  
**(With Comparative Amounts for the Year Ended June 30, 2004)**

	<u>2005</u>	<u>2004</u>
<b>Additions</b>		
Contributions:		
Employer	<u>\$ 4,099,025</u>	<u>\$ 7,803,872</u>
Investment income:		
Interest and dividends	1,199,783	974,327
Appreciation in fair value of investments	<u>2,248,945</u>	<u>1,829,217</u>
Total investment income	3,448,728	2,803,544
Less investment expense	<u>175,654</u>	<u>139,990</u>
Net investment income	<u>3,273,074</u>	<u>2,663,554</u>
Total additions to net assets	7,372,099	10,467,426
<b>Deductions</b>		
Administrative expense	<u>19,348</u>	<u>8,343</u>
<b>Increase in net assets</b>	7,352,751	10,459,083
Net assets held in trust for healthcare benefits, beginning of year	<u>37,610,589</u>	<u>27,151,506</u>
<b>Net assets held in trust for healthcare benefits, end of year</b>	<u><u>\$ 44,963,340</u></u>	<u><u>\$ 37,610,589</u></u>

The accompanying notes are an integral part of these financial statements.

# **CITY OF ANN ARBOR RETIREE HEALTH CARE BENEFITS PLAN AND TRUST**

## **Notes To Financial Statements**

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### **1. PLAN DESCRIPTION**

The City of Ann Arbor Retiree Health Care Benefits Plan and Trust (the “Plan”) is a single-employer defined benefit post-employment healthcare plan established and administered by the City of Ann Arbor through the City of Ann Arbor Board of Trustees of the Retiree Health Care Benefits Plan and Trust to provide health and life benefits for retirees and their beneficiaries.

The Plan is funded by contributions from the City of Ann Arbor with the intention of reaching a fully funded status within the next several years, under a trust agreement established pursuant to Section 501(c)(9) of the Internal Revenue Code, which allows for the formation of a VEBA. This fund is included as a pension and other employee benefits trust fund in the City’s financial statements.

Members are not required to contribute to the Plan. Employer contributions for the year ended June 30, 2005 were approximately \$4,099,000.

Current retiree medical and life benefits are budgeted and paid for out of various City of Ann Arbor departments. The City is reimbursed for these costs pursuant to annual resolutions providing for reimbursement of these costs under Act 28 of Public Acts of 1966, which allows the Employees Retirement Plan to pay current retiree health and life benefits from investment earnings on employer assets in excess of the actuarial rate of return. This calculation is performed by an actuary annually, and the amount reimbursed is within the maximum amount allowed.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Accounting.*** These statements are prepared using the accrual basis of accounting. Employer contributions are recognized in the period that the contributions are due.

***Method Used to Value Investments.*** Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair values.

***Administration.*** Administrative costs are financed through the Plan’s investment earnings.



**CITY OF ANN ARBOR**  
**RETIREE HEALTH CARE BENEFITS PLAN AND TRUST**

**Notes To Financial Statements**

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**3. DEPOSITS AND INVESTMENTS**

At year-end, the carrying amount of the Authority's pooled cash and investments, which were deposited entirely in the City's internal cash management pool, was \$1,426,088. Because it is infeasible to allocate risk to individual component units or pool participants, aggregate cash and investment categorizations are presented in the City's basic financial statements.

The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the Plan to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Plan's Board has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the Plan's assets. All investment decisions are subject to Michigan law and the investment policy established by the Board.

The Plan has investments which are held by an independent trust company. Following is a summary of the Plan's investments as of June 30, 2005:

	<u><b>Fair Value</b></u>	<u><b>Cost</b></u>
Investments at fair value, as determined by quoted market prices:		
Common stocks	\$27,601,725	\$ 25,995,205
Corporate bonds – index fund	12,054,677	12,045,869
Real Estate securities	2,328,682	2,285,032
Money market funds	<u>1,609,169</u>	<u>1,609,169</u>
<b>Total investments</b>	<u><b>\$43,594,253</b></u>	<u><b>\$41,935,275</b></u>

*Interest Rate Risk.* For investments, the risk that changes in interest rates will adversely affect the fair value of the investment is known as interest rate risk. The Plan's investment policy provides for securities with term to maturity of up to 30 years. None of the investments held by the Plan as of June 30, 2005 are subject to interest rate risk.

# **CITY OF ANN ARBOR RETIREE HEALTH CARE BENEFITS PLAN AND TRUST**

## **Notes To Financial Statements**

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*Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan's investment policy provides that corporate bonds rated lower than BBB by Standard & Poor's should be limited to 10% of the investment portfolio. The corporate bonds are in an index fund, and are not rated. The Plan has no investments that are rated as to risk category at June 30, 2005.

*Custodial Credit Risk.* For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan's investment policy requires that investment securities be held in trust by a third-party institution in the Plan's name. As such, although uninsured and unregistered, the Plan's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the Plan's name.

*Concentration of Credit Risk.* The Board has established ranges for investment asset allocation as follows:

<b><u>Asset Class</u></b>	<b><u>% Range</u></b>
Equities	55-65
Fixed income	30-40
Real estate	0-10

Also, at the time of purchase, no more than 5% of the equity securities of a single issuer may be owned, and no security should be more than 5% of the total portfolio at market.

Additionally, the State of Michigan Public Employee Retirement System Investment Act limits domestic equity participation to no more than 70% of total fund market value and international investments to 20% of total fund market value. The investments are listed above, and no individual investment exceeds these concentration parameters.

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